



Memorial Sloan Kettering
Cancer Center™

MEMORIAL SLOAN KETTERING CANCER CENTER

QUARTERLY DISCLOSURE REPORT

UNAUDITED COMBINED FINANCIAL STATEMENTS FOR
THE PERIOD ENDED MARCH 31, 2019

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SPECIAL NOTE CONCERNING FORWARD-LOOKING FINANCIAL STATEMENTS:

Certain statements in this Quarterly Disclosure Report are forward-looking statements that are based on the beliefs of, and assumptions made by, the management of Memorial Sloan Kettering Cancer Center ("MSK" or the "Institution"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Institution to be materially different from expected future results or performance.

The audited financial statements, which contain a full set of footnotes, are available on the DacBond website, www.dacbond.com

THIS DOCUMENT IS DATED AS OF MAY 10, 2019

MSK has prepared and released this Quarterly Disclosure Report in order to provide certain information regarding its financial and operating performance for March 31, 2019 and to meet its continuing disclosure obligations under certain of its financing documents. Except as required by law or by its contractual obligations, MSK undertakes no obligation to update this Quarterly Disclosure Report after its date.

Memorial Sloan Kettering Cancer Center
Management's Discussion and Analysis of Financial Performance
For the Three Months Ended March 31, 2019 and 2018

For the three months ended March 31, 2019, MSK generated operating income of \$65.3 million compared to \$99.8 million for the same period in 2018. MSK's net assets without donor restrictions increased \$270.6 million in 2019 compared to \$118.6 million in 2018.

Operating revenues increased by \$88.2 million or 7.3% in 2019. Patient revenues increased by 10.4%. The growth in Patient Care Revenues reflects the growth of our regional ambulatory care network and normal rate and volume increases. Grants and contracts revenue increased by 13.2% which was led by increased supported research activity. Philanthropic income supporting operations through March 2019 declined \$27.6 when compared to the same period in 2018 due to several large non-recurring gifts received early in 2018.

Operating expenses increased by \$122.7 million or 11.1%. Operating expense growth has been driven by our expanded regional ambulatory care network, increased staffing in advance of further expansion planned for late 2019 and increasing cost of pharmaceuticals. Planned openings in 2019 include: approximately 114,000 square foot ambulatory care facility in Nassau, Long Island (April 2019) and the David H. Koch Center for Cancer Care, a 750,000 square foot outpatient facility (November 2019).

The Institution's long-term investable portfolio of \$3.6 billion has a year-to-date return of 7.1%, which is exclusive of cash and short-term investment returns. The rate of return is reflective of a portfolio that includes 14.0% domestic and 16.5% global equity, 10.0% fixed income and cash, 31.5% hedge funds, 6.5% real assets, and 21.5% private equity and venture capital.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Balance Sheets

	March 31 2019 (unaudited)	December 31, 2018 (audited)
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 633,034	\$ 677,079
Short-term investments – at fair value	88,173	89,184
Accounts receivable, net	669,298	615,885
Pledges, trusts and estates receivable	141,400	170,148
Other current assets	134,867	121,078
Total current assets	<u>1,666,772</u>	<u>1,673,374</u>
Noncurrent assets:		
Assets whose use is limited:		
Construction, debt service and repair reserve funds	98,529	149,799
Captive insurance funds	58,559	59,572
Employee benefit funds	84,669	80,068
Total investments in marketable securities whose use is limited	<u>241,757</u>	<u>289,439</u>
Investments – at fair value	3,666,712	3,343,092
Investments internally designated for major capital projects	533,376	609,377
Property and equipment, net	4,296,225	4,284,338
Pledges, trusts and estates receivable	308,243	321,621
Right-of-use assets – operating leases, net	217,308	-
Other noncurrent assets	107,265	102,326
Total noncurrent assets	<u>9,370,886</u>	<u>8,950,193</u>
Total assets	<u><u>\$ 11,037,658</u></u>	<u><u>\$ 10,623,567</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 486,031	\$ 580,598
Accrued expenses	386,817	414,405
Current portion of operating lease liability	40,134	-
Current portion of long-term debt	52,783	52,771
Total current liabilities	<u>965,765</u>	<u>1,047,774</u>
Noncurrent liabilities:		
Long-term debt, less current portion	2,341,185	2,348,600
Operating lease liability, net of current portion	183,671	-
Other noncurrent liabilities	808,273	799,780
Total liabilities	<u>4,298,894</u>	<u>4,196,154</u>
Net assets:		
Without donor restrictions:		
Undesignated	4,865,294	4,608,791
Board-designated	435,001	420,860
Total without donor restrictions	<u>5,300,295</u>	<u>5,029,651</u>
With donor restrictions	1,438,469	1,397,762
Total net assets	<u>6,738,764</u>	<u>6,427,413</u>
Total liabilities and net assets	<u><u>\$ 11,037,658</u></u>	<u><u>\$ 10,623,567</u></u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Activities without Donor Restrictions

	Period Ended March 31,	
	2019	2018
	<i>(In Thousands)</i>	
Undesignated operating revenues		
Hospital care and services	\$ 1,060,176	\$ 960,246
Grants and contracts	92,137	81,413
Contributions	50,805	72,449
Net assets released from restrictions	13,278	19,287
Royalty and other income	34,506	32,403
Investment returns allocated to operations	39,206	36,087
Total operating revenues	<u>1,290,108</u>	<u>1,201,885</u>
Operating expenses		
Compensation and fringe benefits	684,256	616,043
Purchased supplies and services	453,357	399,936
Depreciation and amortization	77,559	72,272
Interest	9,632	13,784
Total operating expenses	<u>1,224,804</u>	<u>1,102,035</u>
Income from operations	<u>65,304</u>	<u>99,850</u>
Nonoperating income and expenses, net		
Investment returns, net of expenses, allocation to operations and amounts recorded in net assets with donor restrictions	195,126	(40,226)
Other nonoperating income and expenses, net	(2,864)	(10,284)
Total nonoperating income and expenses, net	<u>192,262</u>	<u>(50,510)</u>
Change in postretirement benefit obligation to be recognized in future periods	(1,063)	(1,098)
Increase in undesignated net assets	<u>256,503</u>	<u>48,242</u>
Board-designated		
Board-designated philanthropy	2,335	–
Board-designated investment return	11,806	391
Board-designated other additions	–	70,000
Increase in Board-designated net assets	<u>14,141</u>	<u>70,391</u>
Increase in net assets without donor restrictions	<u>\$ 270,644</u>	<u>\$ 118,633</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Cash Flows

	Period Ended March 31	
	2019	2018
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 311,351	\$ 135,552
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	77,559	72,272
Equity in earnings of investments, net	(3,415)	(2,017)
Unrealized net (gains) losses	(212,636)	30,678
Realized net gains	(65,806)	(35,198)
Amortization of bond premium and issuance costs	(870)	(956)
Donor restricted contributions, pledges and bequests transferred to investing activities	(18,432)	(2,436)
Change in postretirement benefit obligation to be recognized in future periods	1,063	(1,098)
Changes in assets:		
Accounts receivable, net	(53,413)	(83,419)
Pledges, trusts and estates receivable	42,126	26,864
Other current assets	(13,789)	(8,061)
Other noncurrent assets	(218,832)	1,073
Changes in liabilities:		
Accounts payable and accrued expenses	2,973	4,231
Other noncurrent liabilities	191,101	9,714
Net cash provided by operating activities	<u>38,980</u>	<u>147,199</u>
Investing activities		
Net acquisitions of property and equipment	(174,440)	(174,866)
Decrease in investments, net	79,516	131,797
Donor restricted contributions, pledges and bequests transferred from operating activities	18,432	2,436
Net cash used in investing activities	<u>(76,492)</u>	<u>(40,633)</u>
Financing activities		
Repayment of debt	(6,533)	(6,513)
Net cash used in financing activities	<u>(6,533)</u>	<u>(6,513)</u>
Net change in cash and cash equivalents	(44,045)	100,053
Cash and cash equivalents at beginning of year	677,079	900,411
Cash and cash equivalents at end of year	<u>\$ 633,034</u>	<u>\$ 1,000,464</u>

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Interim Combined Financial Statements

For the Period Ended March 31, 2019

Note A - Basis of Presentation

The accompanying financial statements are presented on a combined basis and include the accounts of the following tax exempt, Section 501(c)(3), incorporated affiliates: Memorial Sloan Kettering Cancer Center, Memorial Hospital for Cancer and Allied Diseases, Sloan Kettering Institute for Cancer Research, S.K.I. Realty, Inc., MSK Insurance US, Inc., MSK Proton, Inc. and the Louis V. Gerstner Jr. Graduate School of Biomedical Sciences. All of these entities are collectively referred to as the “Institution”.

The accompanying unaudited combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a basis consistent with that of the 2018 audited financial statements of the Institution. The Institution presumes that users of this interim financial information have read or have access to the Institution’s audited combined financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. Information contained in the Institution’s audited combined financial statements for the years ended December 31, 2018 and 2017 is incorporated herein. Footnotes and other disclosures that would substantially duplicate the disclosures contained in the Institution’s most recent audited combined financial statements have been omitted. Accordingly, these financial statements do not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all transactions considered necessary for a fair presentation have been included.

Patient volumes and net operating revenue and results are subject to seasonal variations caused by a number of factors. Monthly and periodic operating results are not necessarily representative of operations for a full year for various reasons, including the level of occupancy and other patient volumes, interest rates, unusual or infrequent items and other seasonal fluctuations. These same considerations apply to year-to-year comparisons.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Notes to Interim Combined Financial Statements (continued)

Note B – Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make prudent and conservative estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note C - Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. ASU 2016-02 will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. ASU 2016-02 was adopted by the Institution beginning January 1, 2019 and will be applied using a modified retrospective approach. As a result of adoption, the Institution recorded right-of-use assets and obligations for current operating leases. As of March 31, 2019, right-of-use assets were \$217.3 million and liabilities were \$223.8 million, net. The Institution elected the practical expedient to utilize a risk-free rate as the incremental borrowing rate for all leases in transition and prospectively.

MEMORIAL SLOAN KETTERING CANCER CENTER
DEBT COMPLIANCE ANALYSIS
\$000

	<u>3/31/2019</u>	<u>12/31/2018</u>
DEBT RATIO ANALYSIS		
<u>Debt Ratio</u>		
Cash & Equivalents	633,034	677,079
Short Term Investments	88,173	89,184
Assets Whose Use is Limited	241,757	289,439
Investments	4,200,088	3,952,469
Total Cash & Investments	<u>5,163,052</u>	<u>5,008,171</u>
Endowments	713,865	702,307
Less: Current Endowment Pledges	8,338	12,245
Less: Non-Current Endowment Pledges	14,440	15,586
Endowments net of Endowment Pledges	<u>691,087</u>	<u>674,476</u>
Unrestricted Cash & Investments	4,471,965	4,333,695
Long Term Debt	<u>2,393,968</u>	<u>2,401,371</u>
	<u>1.87</u>	<u>1.80</u>
Minimum Debt Ratio Required	<u>0.60</u>	<u>0.60</u>
	Pass	Pass
<u>Loss Allowed</u>		
Income (Loss) From Operations	65,304	219,060
Less: Investment Income Supporting Operations	(39,206)	(151,473)
Add: Board-Designated Income	14,141	227,053
Add: Net Assets Released from Restrictions -Capital	-	25,000
Add: 8% of Unrestricted Investments (3 yr avg)	<u>341,053</u>	<u>346,738</u>
Adjusted Operating Income (Loss)	<u>381,292</u>	<u>666,378</u>
Maximum Loss Allowed	<u>(50,000)</u>	<u>(50,000)</u>
	Pass	Pass
<u>Calculation of 8% of Unrestricted Investments</u>		
Total Cash and Investments	5,163,052	5,008,171
Less: Endowments, net of Endowment Pledges	691,087	674,476
Less: Assets Whose Use is Limited	241,757	289,439
Unrestricted Investments	<u>4,230,208</u>	<u>4,044,256</u>
3 yr average	4,263,157	4,334,230
X 8%	<u>341,053</u>	<u>346,738</u>
	<u>341,053</u>	<u>346,738</u>
<u>LT Debt to Net Assets Without Donor Restrictions</u>		
Net Assets Without Donor Restrictions	5,300,295	5,029,651
Long-term debt	2,393,968	2,401,371
	<u>0.45</u>	<u>0.48</u>
LT Debt to Net Assets Without Donor Restrictions not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass
<u>LT Debt to Unrestricted Cash & Investments Ratio</u>		
Unrestricted cash and investments	4,471,965	4,333,695
Long-term debt	2,393,968	2,401,371
	<u>0.54</u>	<u>0.55</u>
LT Debt to Unrestricted Cash Ratio not to exceed	<u>2.00</u>	<u>2.00</u>
	Pass	Pass

Memorial Sloan Kettering Cancer Center
Key Patient Statistics and Other Data

	Period Ended March 31, 2019	Period Ended March 31, 2018	Year Ended December 31, 2018
Licensed Beds	514	514	514
Beds in Service	498	473	498
Admissions	6,379	5,511	24,243
Discharges	6,333	5,856	24,143
Average Length of Stay	6.7	6.9	7.1
Occupancy Rate (1)	95.6%	95.0%	95.2%
Patient Days	42,501	40,614	171,798
Surgical Cases	7,619	6,908	27,919
Inpatient	2,726	2,566	10,016
Outpatient	4,893	4,342	17,903
Total Outpatient Visits:	200,878	184,660	776,546
Manhattan	135,981	131,755	541,146
Regional Network	64,897	52,905	235,400
Chemotherapy treatments	68,146	63,871	266,503
Manhattan	34,821	34,330	140,343
Regional Network	33,325	29,541	126,160
Radiology	125,664	119,760	493,595
Manhattan	77,496	79,740	317,140
Regional Network	48,168	40,020	176,455
Radiation Oncology	38,002	34,864	146,293
Manhattan	14,873	14,840	59,436
Regional Network	23,129	20,024	86,857
Full Time Equivalents	18,605	16,884	17,893

(1) Based on adjusted bed count

**Memorial Sloan Kettering Cancer Center
Case Mix Index and Patient Revenue Distribution**

	Period Ended March 31, 2019	Period Ended March 31, 2018	Year Ended December 31, 2018
<u>Case Mix Index (1)</u>	2.04	2.01	2.07
<u>Medicare Only CMI</u>	1.99	1.96	2.03
<u>Revenue Distribution</u>			
Medicare	23.9%	25.7%	27.1%
Medicaid	5.0%	2.2%	1.7%
Commercial, Self Pay & Managed Care non-contracted	5.9%	5.5%	6.1%
Managed Care Contracted	<u>65.2%</u>	<u>66.6%</u>	<u>65.1%</u>
	100%	100%	100%

(1) The grouper and weights applicable at the time of discharge were used in the CMI calculation. This CMI is for the total Hospital.



Memorial Sloan Kettering
Cancer Center


CERTIFICATE OF COMPLIANCE
For The Period Ended March 31, 2019

Re: Memorial Sloan Kettering Cancer Center
Bond Series 1998, 2010 Series 1, 2012 and 2012 Series-1, 2015 Series 1, 2016 Series 1,
2016 Series 2, and 2017 Series 1

The undersigned hereby certifies as follows:

1. I am the Senior Vice President Finance of Memorial Sloan Kettering Cancer Center, herein after referred to as the Institution, and I am authorized to sign this certificate.
2. I have read the Loan Agreements, and Tax Certificates executed on behalf of the Institution in connection with the referenced Bond issues.
3. By virtue of my position at the Institution I would expect to become aware in the ordinary course of business of any breach of the terms, conditions and covenants contained in the Loan Agreements or Tax Certificates.
4. To the best of knowledge, there has not been and is not now existing any breach of any of the terms, conditions or covenants contained in the Loan Agreements or Tax Certificates.
5. The Institution has not received an insurance payment, eminent domain award or property damage award for any part of the Project or Mortgaged Property.
6. Except as permitted by the Loan Agreements or Tax Certificates executed in connection with the issuances of the Bonds or as subsequently consented to by the Authority and any other parties required to consent thereto, (1) the Institution owns, occupies and uses for its tax exempt purposes all of the Project(s) financed with the proceeds of the referenced Bond issue(s); (2) no other party has the right to use or occupy any portion of such Project(s); (3) the Institution receives no payment from any party or parties for occupying all or any part of such Project(s); (4) the Institution has not entered into any contract for the management of any part of the Project(s) by another party or person. (Payment does not include fees from students for occupying dormitory rooms and fees from staff members for occupying staff housing).

7. The Institution has not received any correspondence from the Internal Revenue Service questioning its tax-exempt status and hereby reaffirms its status as a not-for-profit corporation that is exempt from federal income tax pursuant to Section 501 (c)(3) of the Internal Revenue Code or as a tax exempt governmental entity.
8. The Institution has implemented adequate policies and procedures to enable the Institution to comply with any reporting requirements of the Internal Revenue Service applicable to the Bonds, including but not limited to Schedule K (Form 990).
9. To the best of my knowledge, the Institution has not granted or permitted any liens against the Mortgaged Property or leases of any part thereof except those which were filed prior to, or in connection, with the issuance of the Bonds or those which were subsequently consented to by the Authority and any other parties required to consent thereto.

 5/6/2019
Signature Date

Mark Svenningson
Print Name

Senior Vice President Finance
Title